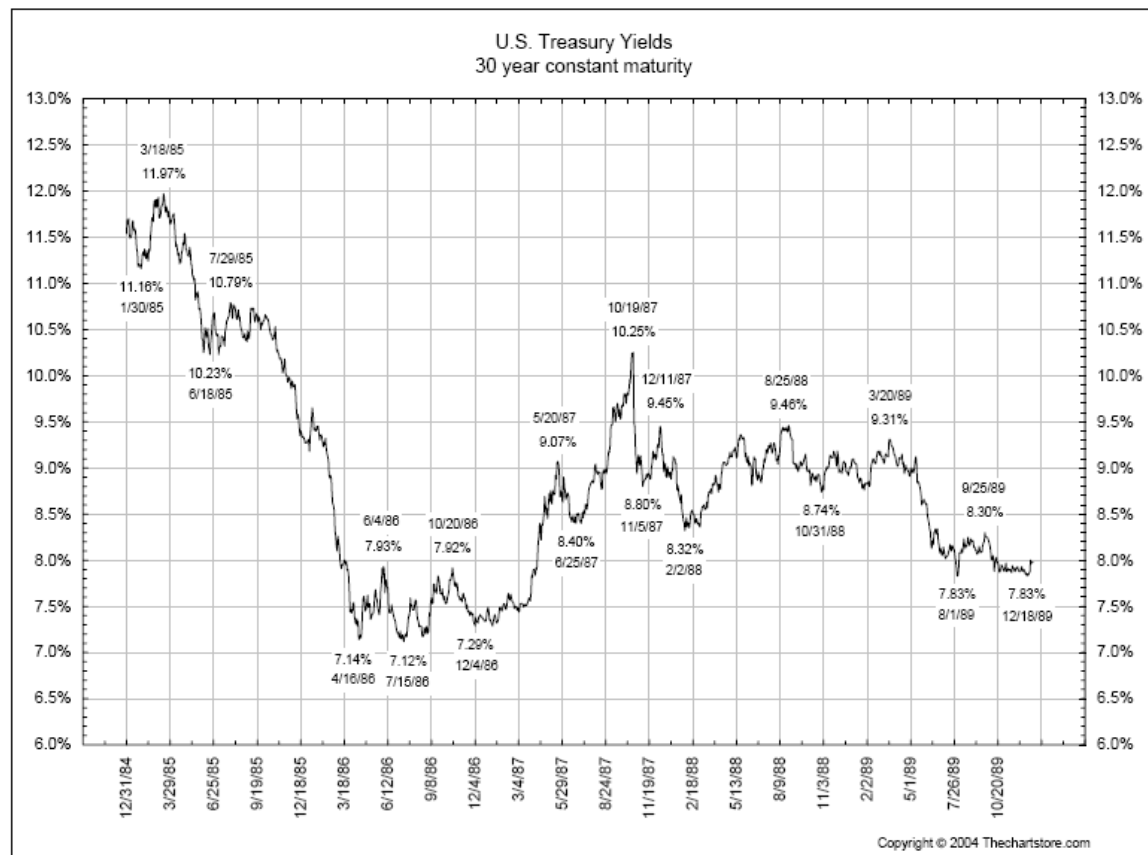


It's Deja Vu All Over Again

October 7, 2005

Far be it for us to be calling wolf, but we are beginning to see signs of a middle two quarters 1987 rerun. Please note the following charts. Pay particular attention to the direction of the two charts from the spring of 1987 through the middle of October 1987. Remember that up is down in price for interest rate charts. That period of time was very important to my old firm of Peters, Gamm & West. We were managing in excess of \$1 billion in fixed income funds and were fully invested in long duration bonds. The stock market was rapidly declining in price as well as the bond market. There was a huge inflation scare, we checked our fundamentals and it was clear to us that sustainable inflation was not in the cards. We chartered a small plane and went to see our pension fund clients. They all understood and some even added money to their bond portfolios. Interest rates at that time went from 7.29% to 10.25%, nearly 300 basis points. Let this be our "chartered plane." Some have already added to their bond accounts and more need too.

P.S. As we finished this web buzz piece we returned to the Internet to see what others were saying. The following is a direct quote from Stephen Roach, Chief Economist for Morgan Stanley. "The history of recent Fed leadership transitions does not read well in the financial markets. The last one occurred in August 1987, when Alan Greenspan assumed the reins of power. A little more than two months later, the US stock market crashed." Note he referred to the same period of time. His focus was that financial markets seem to react sometimes rather harshly when there is a changing of the guard at the Fed. Greenspan leaves in January 2006. Will it do so again?



Dow Jones Industrial Average

